

**1999**  
COMPREHENSIVE ANNUAL  
FINANCIAL REPORT



CALIFORNIA STATE TEACHERS'  
RETIREMENT SYSTEM

A COMPONENT UNIT OF THE  
STATE OF CALIFORNIA  
JUNE 30, 1999



## Introduction

1	Award: GFOA Certificate
2	Award: PPCC Certificate
3	CEO Letter of Transmittal
7	Teachers' Retirement Board
8	Organizational Chart: Executive Staff
10	Report of the Chair
11	Year in Review

## Financial

17	Report on Audits of Combined Financial Statements and Supplemental Information
18	Report of Independent Accountants
19	Combined Statements of Plan Net Assets
20	Combined Statements of Changes in Plan Net Assets
21	Notes to General Purpose Financial Statements
31	Report of Independent Accountants on Required Supplementary Information
32	Schedule of Funding Progress
33	Schedule of Contributions from Employers and Other Contributing Entities
35	Teachers' Retirement Fund Schedule of Administrative Expenses
36	Schedule of Investment Expenses from Continuous Appropriation
38	Schedule of Consultant and Professional Services Expenses
40	Cash Balance Plan Schedule of Administrative Expenses
41	Cash Balance Plan Schedule of Consultant and Professional Services Expenses
42	CalSTRS 403(b) Program Schedule of Administrative Expenses
43	Disclosures about Year 2000 Issues

## Investments

- 47 Investment Consultant's Report
- 48 Investments
- 48 Chart of Investment Growth
- 49 Charts of Asset Allocation, Returns and Asset Categories Performance
- 50 Chart of Largest Fixed Income Holdings
- 51 Chart of Largest Equity Holdings
- 52 Charts of Investment Summary and Fees
- 53 Chart of Broker Commissions
- 54 Cash Balance Fund Investment Summary



## Actuarial

### Defined Benefit Program

- 57 Actuary's Certification Letter
- 59 Summary of Actuarial Assumptions and Methods
- 63 Schedule of Active Member Valuation Data
- 63 Schedule of Retired Members and Beneficiaries Added to and Removed from Rolls
- 63 Solvency Test
- 64 Analysis of Financial Experience
- 64 Independent Actuarial Review
- 65 Summary of Program Provisions
- 68 Changes in Program Provisions

### Cash Balance Benefit Program

- 70 Actuary's Certification Letter
- 72 Summary of Actuarial Assumptions and Methods
- 76 Summary of Program Provisions
- 78 Changes in Program Provisions

## Statistical

- 81 Defined Benefit Program Schedules
- 86 Defined Benefit Program Schedule of Participating Employers
- 93 Cash Balance Benefit Program Schedules
- 93 Cash Balance Benefit Program Participating Employers
- 94 Programs Administered or Overseen by the Retirement System
- 94 CalSTRS 403(b) Program Schedules
- 94 CalSTRS 403(b) Program Participating Employers

---

**California State Teachers' Retirement System**  
**A Component Unit of the State of California**  
**1999 Comprehensive Annual Financial Report**  
**for the year ended June 30, 1999**

Prepared by the staff of the California State Teachers' Retirement System  
 7667 Folsom Boulevard Sacramento, CA 95826-2614  
 James D. Mosman, Chief Executive Officer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## California State Teachers' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



  
President

  
Executive Director



Public Pension Coordinating Council  
Public Pension Principles  
**1998 Achievement Award**

Presented to

**California State Teachers' Retirement System**

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

*Presented by the Public Pension Coordinating Council, a confederation of*  
Government Finance Officers Association (GFOA)

National Association of State Retirement Administrators (NASRA)

National Conference on Public Employee Retirement Systems (NCPERS)

National Council on Teacher Retirement (NCTR)

A handwritten signature in dark ink, appearing to read 'Scott Engmann', is written over a light blue horizontal line.

Scott Engmann  
Chairman



# CEO Letter of Transmittal

December 20, 1999



California State Teachers' Retirement System  
Post Office Box 15275  
Sacramento, CA 95851-0275

I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 1999. The report is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship of the Teachers' Retirement Plan and the CalSTRS 403(b) Program. (Please note the Teachers' Retirement Plan consists of the Defined Benefit and Cash Balance Benefit programs. Effective January 1, 1999, the Cash Balance Plan was combined with the Defined Benefit Plan to become programs within the newly named Teachers' Retirement Plan.)

I believe this report will be helpful to the California Legislature, CalSTRS members and other interested parties in understanding the California State Teachers' Retirement System, established by law in 1913 to provide retirement benefits to California's public school educators. Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

The events and developments of the year mark a threshold for CalSTRS. Thanks to excellent investment returns and the achievement of a fully funded status, CalSTRS is entering a time of increased opportunities for the members. Those members, as of June 30, 1999, included employees of approximately 1,160 school districts, community college districts, county offices of education and regional occupational programs (listed starting page 86).

The 1999 CAFR consists of five sections:

The **introductory section** contains this letter of transmittal, the administrative organization, report of the Teachers' Retirement Board chairperson and a review of CalSTRS achievements and activities.

The **financial section** includes the report of the independent auditor, the system's financial statements and supplemental information for the Teachers' Retirement Plan, Cash Balance Plan and CalSTRS 403(b) Program.

The **investment section** contains a consultant's report summarizing investment activity, an explanation of investment policy, portfolio performance information and various investment schedules for the Teachers' Retirement Plan. Investment of the Cash Balance Benefit Program contributions is also discussed. Investment information is not included for the CalSTRS 403(b) Program since all investments are member-directed into mutual funds.

The **actuarial section** includes the actuary's certification letters and summaries for both the CalSTRS Defined Benefit and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The **statistical section** includes information on the CalSTRS Defined Benefit Program, Cash Balance Benefit Program and CalSTRS 403(b) Program.



### Accounting and Reporting

CalSTRS accounting records are maintained on the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer and state contributions are recognized when due and the employer or state has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the CalSTRS retirement programs.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

For the reporting period ended June 30, 1999, the Teachers' Retirement Plan consists of the Defined Benefit and Cash Balance Benefit programs.

The Cash Balance Plan was combined with the Defined Benefit Plan effective January 1, 1999, and the names were changed to the Cash Balance Benefit Program and the Defined Benefit Program.

### Revenues

Actual member and employer contribution rates for both the Defined Benefit and Cash Balance Benefit programs are set by the Teachers' Retirement Law, a part of the Education Code, which assigns the authority to establish contribution rates to the state Legislature.

Defined Benefit Program contributions and investment income for the fiscal year ended June 30, 1999, totaled \$15.048 billion, including the Cash Balance Benefit Program from January 1, 1999 to June 30, 1999.

	<b>DB Program CBB Program</b> (1/1/99 to 6/30/99)	<b>CB Plan</b> (7/1/98 to 12/31/98)
--	--	--

Member/Participant	\$ 1.424 billion	\$550 thousand
Employer	\$ 1.476 billion	\$560 thousand
State	\$ 0.350 billion	\$0
Investment and other	\$11.798 billion	\$183 thousand

### CalSTRS 403(b) Program

Participant contribution rates are set by the Internal Revenue Code. Contribution and investment income for fiscal year ended June 30, 1999, totaled \$12.796 million.

Participant	\$8.675 million
Investment	\$4.121 million

### Expenses

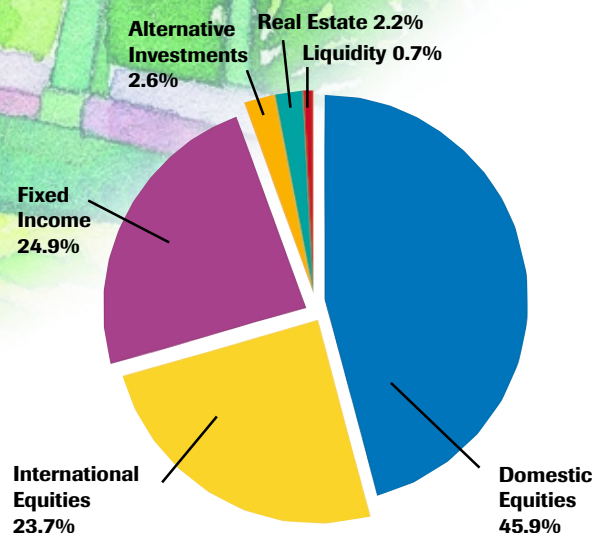
The total Defined Benefit and Cash Balance Benefit programs' expenses for the year were \$3.463 billion, which included benefit payments, refund of contributions to terminated members/participants and the cost of administering the system. Administrative expenses are allocated through an annual budget approved by the Teachers' Retirement Board.

### Cash Balance Plan

The costs of the program include administrative and interest expenses and totaled \$432,000 for July 1, 1998 to December 31, 1998.

**Asset allocation (6/30/99)**

Total investment portfolio of \$99.9 billion

**CalSTRS 403(b) Program**

Total expenses for the year ended June 30, 1999, totaled \$2.052 million, which included recurring annuities and administrative expenses.

**Investments**

CalSTRS is dedicated to obtaining the highest possible return on its investments of fund assets, given an acceptable level of risk. The CalSTRS Investment Management Plan incorporates strategies that accomplish Teachers' Retirement Board direction. Reducing the system's funding costs, within prudent levels of risk, diversification, and reduction of costs associated with managing the system assets are measures that have contributed to a solid investment portfolio.

The market value of the CalSTRS investment portfolio reached almost \$100 billion on June 30, 1999. The \$99.9 billion represented a gain of \$11.6 billion over the same period last year. This dollar gain represented a return of 13.4 percent. Nearly all asset classes exceeded their benchmarks, from the international equity to the private equity to domestic debt. These strong results allowed CalSTRS' portfolio to outperform 79 percent of the others in its peer group of large public funds. While the 1999 results represented an improvement over 1998, these results are significantly better than one year ago, when CalSTRS performed better than only 37 percent of its peer group of large public funds.

**Funding**

The most recent actuarial valuation, for the fiscal year ended June 30, 1998, shows the Defined Benefit Program is fully funded, having 104 percent of the funds needed to pay the cost of the benefit plan in effect in 1998. Under state law, the Defined Benefit Program receives state General Fund contributions set at a percentage of the prior calendar year's member payroll. With the program fully funded, the amount received from the state was reduced since funding for any shortfall was no longer needed (see page 69).

**Initiatives**

The health care benefits project is an extremely important new initiative. In 1998, legislation passed requiring CalSTRS to study the feasibility of providing health care benefits to active members and benefit recipients. A survey of active members, benefit recipients and employers was completed in the spring of 1999. This survey will be the basis for the Teachers' Retirement Board to determine the type of health benefit program to be designed.

CalSTRS is in the final stages of establishing a new and more flexible database management system that will enhance service to members and support future CalSTRS projects. Conversion to the new system is scheduled for July 2000.

**Awards**

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The California State Teachers' Retirement System has received a Certificate of Achievement for the last three years. We believe our





---

*Thanks to excellent investment returns and the achievement of a fully funded status, CalSTRS is entering a time of increased opportunities for the members.*

---

current report continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA for consideration again this year.

CalSTRS also was awarded the Public Pension Coordinating Council's Public Pension Principles Achievement Award in 1998. This two-year award is for achievement of high professional standards for public employee retirement systems. The award is based on compliance with principles that support retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

### **Acknowledgments**

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to assure the successful operation of the California State Teachers' Retirement System.

Respectfully submitted,

James D. Mosman  
Chief Executive Officer

# Teachers' Retirement Board



**Emma Y. Zink,**  
**Chairperson**  
(K-12 Classroom Teacher)  
San Diego

*Term:*  
November 6, 1991 to  
November 7, 1995\*



**Gary Lynes**  
(K-12 Classroom  
Teacher)  
Hillsborough

*Term:*  
December 1994  
to December 30, 1998\*



**Delaine Eastin**  
Superintendent of  
Public Instruction  
Ex-Officio Member



**Lillian Raffel**  
**Vice Chairperson**  
(School Board Member)  
Beverly Hills

*Term:*  
September 10, 1996 to  
September 6, 2000



**Kathleen Connell**  
State Controller  
Ex-Officio Member



**Marty Mathiesen**  
(System Retiree)  
Los Altos

*Term:*  
June 4, 1996 to  
June 16, 2000



**Phil Angelides**  
State Treasurer  
Ex-Officio Member



**George W. Fenimore**  
(Public Representative)  
Los Angeles

*Term:*  
December 24, 1992 to  
November 7, 2001



**B. Timothy Gage**  
State Director  
of Finance  
Ex-Officio Member



**Yvonne Gallegos  
Bodle**  
(Community College  
Instructor)  
Ventura

*Term:*  
September 10, 1996 to  
September 6, 2000

**Vacant**  
(Insurance Official)

**Vacant**  
(Banking Official)

\* Member continues to serve at Governor's discretion.

# Executive Staff

as of June 30, 1999



**James D. Mosman**  
*Chief Executive Officer*



**Patrick Mitchell**  
*Chief Investment  
Officer*



**Peggy A. Plett**  
*Deputy Chief  
Executive Officer  
Administration*



**Jennifer  
DuCray-Morrill**  
*Chief External  
Affairs Officer*



**Kenneth L. Costa**  
*Director  
START Project*



**Christopher Waddell**  
*Chief Counsel  
Legal Office*



**Elleen Okada**  
*Director of Investment  
Administration and  
External Relations  
Investments*



**Michael J. Carter**  
*Deputy Chief  
Executive Officer  
Client Benefits  
and Services*



**Laurence P.  
Martin**  
*Deputy Chief  
Executive Officer  
Information and  
Financial Systems*



**Ed Derman**  
*Deputy Chief  
Executive Officer  
External Affairs and  
Program Development*



CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Watson Wyatt Worldwide provides actuarial services and the independent auditor is PricewaterhouseCoopers, LLP. Lists of investment professionals for investment services and other consultants are provided on schedules four and five in the financial section of the report. A brief list of independent consultants is shown below.

- PricewaterhouseCoopers, LLP
- Watson Wyatt Worldwide
- Hogan and Hartson
- SPL Worldgroup Consulting
- William M. Mercer Inc.



## Report of the Chair

On behalf of the Teachers' Retirement Board, I am pleased to present the California State Teachers' Retirement System 1999 Comprehensive Annual Financial Report. After passage of last year's unprecedented benefit enhancements, I did not expect a second year of outstanding achievements. However, I've been proved wrong.

The good news we continued to hear all this year opens wide the door to more opportunities for benefit improvements. The retirement system for California's educators has never been stronger.

The first milestone reached this year was the target of every pension plan—full funded status. In April, the board learned the results of the June 30, 1998 actuarial valuation. The Defined Benefit Program had 104 percent of the funds needed to pay the cost of the benefit plan in effect in 1998. Full funding was reached ahead of the 1997 valuation's prediction. In 1997, the actuary estimated the unfunded liability would be paid in three years.

The attainment of this historic landmark was both gratifying and energizing. The outstanding performance of the investment portfolio and the success of our asset allocation policy were major contributors to this good news. It meant benefits were now assured without relying on future generations of Californians for past liabilities.

Later this year another threshold was breached when the Teachers' Retirement Fund exceeded \$100 billion in assets for the first time in its history. To reach this financial target, the fund's investment portfolio grew more than \$11.6 billion from the previous year, continuing a five-year trend of annual double-digit returns.



Reaching this epic mark is exciting news as we go into the next century. This huge accomplishment showed the strength and security of the fund for the benefits of current and future retired teachers.

Topping off the year's accomplishments was the investment portfolio's 13.4 percent return on its investments as of June 30, 1999. This brought on CalSTRS' best showing yet compared to most large pension funds. CalSTRS outperformed 91 percent of public and corporate pension funds with more than \$1 billion in assets, according to the Trust Universe Comparison Service. This service, which measures relative performance of pension funds, reported CalSTRS' peer group had a median investment return of 10.80 percent.

The year of good news culminated in CalSTRS finding itself in the enviable position of having excess investment earnings. Therefore, this summer, the board established priorities for benefit increases to be funded from excess earnings. These priorities will guide future deliberations as we enter a new era of opportunity for the CalSTRS members.

Respectfully submitted,

Emma Y. Zink  
*Teachers' Retirement Board, Chairperson*

## Year in Review

### Membership

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,160 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 1999, there were a total of 471,332 active and inactive members and 161,457 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 632,789, an increase of 27,664 more than the previous fiscal year.

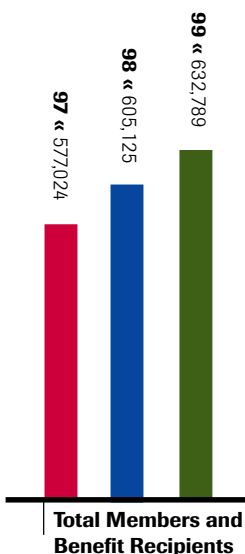
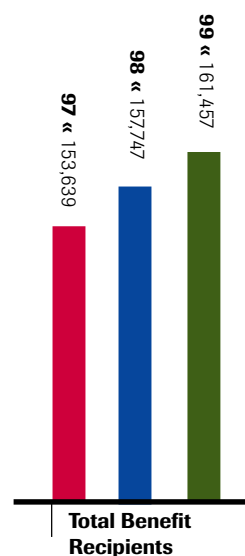
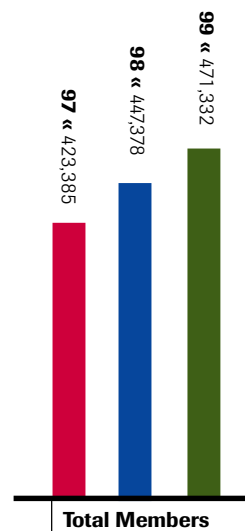
(The audit report of the independent accountants, presented in the financial section, contains Defined Benefit Program membership data as of June 30, 1998, due to the timing of that report.)

### Benefits to Members and Benefit Recipients

#### Service Retirement

CalSTRS desires the retirement process to be positive, rewarding and comfortable for the members. CalSTRS believes fast, accurate and efficient benefit payments are fundamental to achieving this goal.

Of the 7,248 members who retired in 1998–99 fiscal year, 99 percent received his or her first benefit payment within the CalSTRS-established goal of 30 days of the person's retirement date (or after receipt of the completed application). CalSTRS' 30-day goal exceeds the 45-day standard mandated by law.





This year, 6,518 members used the express benefits service. This service enables a retiring member to receive credit for unused sick leave in his or her first retirement benefit payment, resulting in a high level of payment accuracy.

### Survivor Benefits

CalSTRS received 5,026 survivor benefits applications. Of the applications received, 99 percent were processed within the 45-day legislative standard and 97 percent were processed within 30 days.

### Disability

The Disability Services Section received 533 disability applications during 1998–99. Staff processed 100 percent of the initial disability payments within 10 working days of receipt of all necessary information.

Exceeding 1997–98 figures, 99 percent of all eligible disability applications were processed within six months of the initial receipt of the application, a 5 percent increase in service.

A total of 100 previously disabled members returned to work or a position with a comparable salary, for an annual CalSTRS savings of more than \$9 million.

## Services to Members and Beneficiaries

### Public Service

Public Service staff answered 214,505 calls, an increase of 30,563, or 16.6 percent, from last year. CalSTRS automated attendant telephone system received 84,658 calls, an increase of 9 percent from 1997–98.

The automated interactive telephone system, Teletalk, received 39,437 calls, an increase from last year of 4 percent. CalSTRS is proud of the fact that 97.7 percent of the telephone calls handled by staff were answered in the initial call, thus avoiding the need to call back the member. According to a comparative study of telephone service, this performance level rates as a “best in class” practice.

Ninety-four percent of all calls were answered within 3 minutes or less, an increase in service of 5 percent from last year. The average call wait time was 0.79 minutes.

The Public Service Office received 9,239 pieces of correspondence, a 31 percent increase from last year.




---

*CalSTRS desires the retirement process to be positive, rewarding and comfortable for the members.*

---

### Member Communication

CalSTRS communicates with members and beneficiaries through the *Bulletin* and the *Retired Educator*. The *Bulletin* is mailed twice a year to active and inactive members. It contains information from CalSTRS Chief Executive Officer and the Teachers' Retirement Board. Also presented are legislative summaries and discussions of educator issues.

The *Retired Educator* is mailed twice a year to retired members and benefit recipients. It contains issues and information of special interest to them.

A detailed program book and single-topic brochures are mailed upon request, given to members during personal interviews and are available to employers and employees by mail or telephone request. CalSTRS mails the *New Member Guide* to newly hired educators.

### CalSTRS Internet Web Site

The CalSTRS Web Site is intended to provide information for members, employers and CalSTRS' business partners. The CalSTRS Web Site includes many useful features, such as the Retirement Benefit

Calculator, which allow members to estimate their retirement benefit; an online feedback form; and the Employer Page to provide county and school district personnel with pertinent information. A variety of other topics, ranging from the monthly Teachers' Retirement Board agenda to various CalSTRS publications are updated throughout the year.

### **Financial Education Program**

Thirty-two Financial Education Program workshops were presented around the state under this program. Information regarding CalSTRS benefits, financial planning and applicable Social Security provisions were presented to 2,500 members and their guests.

### **Retirement Planning Workshops**

Personal retirement counseling interviews were provided to 24,657 members in 1998–99. In addition, 491 workshops covering retirement, disability and survivor benefits were presented to 16,266 members. These interviews and workshops allow members a chance to have direct contact with staff who answer their questions.

## **Services to Employers, Member and Client Organizations**

The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients.

These committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and service to members and beneficiaries.

Reaching consensus with the two committees on legislative proposals, as well as policy issues, is important to the Teachers' Retirement Board. Therefore, staff has also scheduled special meetings and has worked closely with both committees on plan design and other crucial member and employer issues.

Annually, CalSTRS staff conduct an Employer Institute, with one session presented in southern California and another in northern California. CalSTRS processes, laws and policies are discussed with employer staff, giving an opportunity for CalSTRS and employers to exchange information.

CalSTRS staff also conduct field visits to individual counties and school districts. The purpose of the visit is to provide specific information to the employer regarding CalSTRS' data reporting process. In addition to the reporting procedures, staff discuss the use of the Remote Employer Access Program that allows the employer direct access to the CalSTRS database for verification and review of the member's service and contribution records, thereby improving the accuracy and timeliness of the reporting process.